STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF

ASSOCIATION EXAMINATION

OF

AMERICAN RESOURCES INSURANCE COMPANY, INC.

Mobile, Alabama

AS OF

DECEMBER 31, 2003

PARTICIPATION:

SOUTHEASTERN ZONE, NAIC

ALABAMA

TABLE OF CONTENTS

STATE OF ALABAMA
COUNTY OF MOBILE

Blase Francis Abreo, being first duly sworn, upon his oath deposes and says:

THAT he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

THAT an examination was made of the affairs and financial condition of *AMERICAN RESOURCES INSURANCE COMPANY INC.*, for the period from January 1, 1999 through December 31, 2003;

THAT the following 36 pages constitute the report to the Commissioner of Insurance of the State of Alabama; and

THAT the statements, exhibits and data therein contained are true and correct to the best of his knowledge and belief.

Francis Blase Abreo

Blase Francis Abreo, CFE

Subscribed and sworn to before the undersigned authority this 15 day of November 2004.

Charlene H. Williams

(Signature of Notary Public)

Charlene H. Williams Notary Public
(Print Name)
in and for the State of Alabama

My commission expires 6.5.07

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CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
INTERIM GENERAL COUNSEL
TERRY RAYCRAFT
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

Mobile, Alabama
November, 15, 2004

Honorable Jose Montemayor
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Commissioner, Texas Department of Insurance
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Honorable Walter A. Bell
Commissioner of Insurance
State of Alabama, Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36104

Dear Commissioners:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2003, has been made of

AMERICAN RESOURCES INSURANCE COMPANY, INC.

at its home office located at 1111 Hillcrest Road, Mobile, Alabama 36695. The report of examination is submitted herewith.

Where the description "Company" or "ARIC" appears herein, without qualification, it will be understood to indicate *American Resources Insurance Company, Inc.*

SCOPE OF EXAMINATION

A full scope financial and market conduct examination was authorized pursuant to the instructions of the Alabama Insurance Commissioner and in accordance with the statutory requirements of the *Alabama Insurance Code* and the regulations and bulletins of the State of Alabama Department of Insurance in accordance with the applicable guidelines and procedures promulgated by the National Association of Insurance Commissioners (NAIC); and in accordance with generally accepted examination standards.

The Company was last examined for the four-year period ended December 31, 1998. The current examination covers the intervening period from January 1, 1999, through December 31, 2003, and was conducted by examiners from the Alabama Department of Insurance, representing the NAIC's Southeastern Zone. Where deemed appropriate, transactions subsequent to December 31, 2003 were reviewed.

The examination included a general review of the Company's operations, administrative practices, and compliance with statutes and regulations. Corporate records were inspected. Income and disbursement items for selected periods were tested. Assets were verified and valued, and all known liabilities were established or estimated as of December 31, 2003, as shown in the financial statements contained herein. However, the discussion of assets and liabilities contained in this report has been confined to those items which resulted in a change to the financial statements, or which indicated a violation of the *Alabama Insurance Code* and the Insurance Department's rules and regulations or other insurance laws or rules, or which were deemed to require comments and/or recommendations.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to have valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2003. A signed letter of representation was also obtained at the conclusion of the examination whereby management represented that, through the date of this examination report, complete disclosure was made to the examiners regarding asset and liability valuation, financial position of the Company, and contingent liabilities. Company office copies of the filed Annual Statements for the years 1999 through 2003, were compared with or reconciled to account balances with respect to ledger items.

The market conduct phase of the examination consisted of a review of the Company's territory, plan of operation, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, claims, and privacy policies and practices.

ORGANIZATION AND HISTORY

The Company was incorporated in Mobile County, under the laws of the State of Alabama on January 27, 1981, as a wholly owned subsidiary of ARIC Investments, Incorporated, an Alabama Corporation.

According to ARTICLE II of the Articles of Incorporation, the primary purpose of incorporation, in addition to the authority conferred upon corporations formed under the Alabama Business Corporation Act, is to issue policies and enter into contracts of property insurance, casualty insurance, surety insurance, marine, wet marine and transportation insurance, as well as other casualty or insurance risks which lawfully may be made the subject of insurance.

ARTICLE IV of the original charter provided for authorized capital of $1,000,000 comprised of 1,000,000 share of $1 par value per share common stock. In 1992, the Company's charter was amended to increase the total authorized capital to $5,000,000 comprised of 5,000,000 share of $1 par value per share common stock.

The authorized capital of the Company has not changed during the five-year period covered by this examination. The Company's capital structure at December 31, 2003 consisted of 5,000,000 authorized shares of common stock with a par value of $1 per share, with 1,500,000 shares issued and outstanding for total capital of $1,500,000, and $1,500,000 in *Gross paid in and contributed surplus.*

The Company, along with its holding company, ARIC Investments Inc., was sold to its current owners on May 4, 1994.

MANAGEMENT AND CONTROL

Stockholders

The Company is a stock corporation with ultimate control vested in its stockholders. At December 31, 2003, one hundred percent (100%) of the Company's issued and outstanding common stock was owned by ARIC Investments Inc.

Board of Directors

The By-laws of the Company provided that the business and affairs of the Corporation shall be managed by the Board of Directors. ARTICLE II, Section 2 of the By-laws, set the number of directors at five, of which one-third of all directors shall be bona fide residents of the State of Alabama. Members elected to the Board of Directors by the sole stockholder on March 5, 2003, and serving at December 31, 2003, are shown as follows:

Name and Residence	Principal Occupation
Thomas Louis Ferreri North Naples, Florida	Attorney Ferreri & Fogle
Harvey Lamar Lee Mobile, Alabama	President American Resources Insurance Company Inc.
Stephen Gregory Pate Pensacola, Florida	Secretary/Treasurer American Resources Insurance Company Inc.
James Lisle Riddle Madisonville, Kentucky	Insurance Agent J. Craig Riddle & Co.
Alton Rives Brown, Jr.* Mobile, Alabama	Attorney Brown Hudgens PC

*Deceased, February 21, 2004. As of the report date, no successor was elected.

Committees

ARTICLE II, Section 10 of the By-Laws provided that "The Board of Directors shall have power, by resolution or resolutions passed by a majority of the Board to designate one or more committees, each committee to consist of two or more Directors of the Corporation…" Company management indicated that there were three appointed committees of the Board:

Investment Committee	Underwriting Committee
Thomas Louis Ferreri	Thomas Louis Ferreri
Harvey Lamar Lee	Harvey Lamar Lee
Stephen Gregory Pate	Stephen Gregory Pate
Nina Simons O'Hara	Chesley Williams Riddle, Jr.
	Michael Reeves Brady
Claims Committee	
James Gordon Fogle	
Harvey Lamar Lee	
Louis Eugene Tarifa	

In addition to the Board members, the Company appointed Ms. Nina S. O'Hara, VP of Finance, to the investment committee; Mr. James G. Fogle and Mr. Louis E. Tarifa, VP of Claims, to the claims committee; and Chesley W. Riddle, Jr. and Mr.

Michael Brady, VP of Underwriting to the underwriting committee. This was in conflict with ALA. CODE § 10-2B-8.25 (1975), which requires that:

> "... a board of directors may create one or more committees and appoint members of the board of directors to serve on them."

The Company had no minutes of meetings of Finance, Claims and Underwriting Committees, although it was indicated that the committees met during the Board of Directors meeting. This is in conflict with ALA. CODE § 10-2B-16.01 (1975), which requires that:

> "A corporation shall keep as permanent records...a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation."

Officers

ARTICLE III, Section 2 of the By-Laws provides that "The officers of the Corporation shall be elected annually by the Board of Directors at the regular meeting of the Board held pursuant to Article II, Section 3, of these By-Laws." The minutes of the meetings of Board of Directors reviewed during the examination indicated that the Board did not elect the officers during the period covered by the examination.

The 2003 Annual Statement reported the following officers serving at December 31, 2003.

Officer	Title
Harvey Lamar Lee	President
Stephen Gregory Pate	Secretary / Treasurer
Louis Eugene Tarifa	Vice President, Claims
Nina Simons O'Hara	Vice President, Finance
Michael Reeves Brady	Vice President, Underwriting

Conflict of Interest

The conflict of interest statements filed by the officers and directors of the Company were reviewed for the period covered by this examination. Mr. James Lisle Riddle, Director of the Company, disclosed that he was one of the owners of J. Craig Riddle Co., Inc.

The examination established that during January 1, 1999 through December 31, 2003, J. Craig Riddle Co., Inc. produced $8,848,392, in written premiums for the Company. The rate of commission payment varies by line of business and is paid at a rate of 6 - 17.5%. During the period covered by the examination, $1,107,274 in commission was paid to the aforementioned agency. Payment of fee, brokerage, or commission to a director is in conflict with ALA. CODE § 27-27-26 (1975), which states:

> "Any officer, or director...shall not take or receive to his own use any fee, brokerage, commission, gift or other consideration for, or on account of, any such transaction made by, or on behalf of, such insurer."

The examination also identified a $128,771 loan at 6% interest rate, was extended to Mr. Lamar Lee, Director and President of the Company, which was in conflict with ALA. CODE § 27-27-26 (1975), which states:

> "Any officer, or director...shall not borrow the funds of such insurer…"

The Company should contact the Commissioner of the State of Alabama and obtain approval for a solution to rectify the noted conflicts.

CORPORATE RECORDS

The Article of Incorporation as amended, and By-Laws, were inspected and found to provide for the operation of the Company in accordance with usual corporate and applicable statutes and regulations.

There were no other changes to the Company's corporate records during the examination period.

Minutes of the meetings of shareholders and Board of Directors were reviewed for the period under examination. Other than those items previously noted in the MANAGEMENT AND CONTROL section, and the ACCOUNTS AND RECORDS section later in the this report, the minutes appeared to be complete with regard to recording actions taken on matters before the respective bodies for deliberation and action.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

The Company was subject to the *Alabama Insurance Holding Company Regulatory Act*, as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company was registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System.

Appropriate filings required under the Holding Company Act were made from time to time by the Company as registrant. A review of the Company's filings during the period under examination indicated that all required disclosures were included in the Company's filings.

Dividends to Stockholders

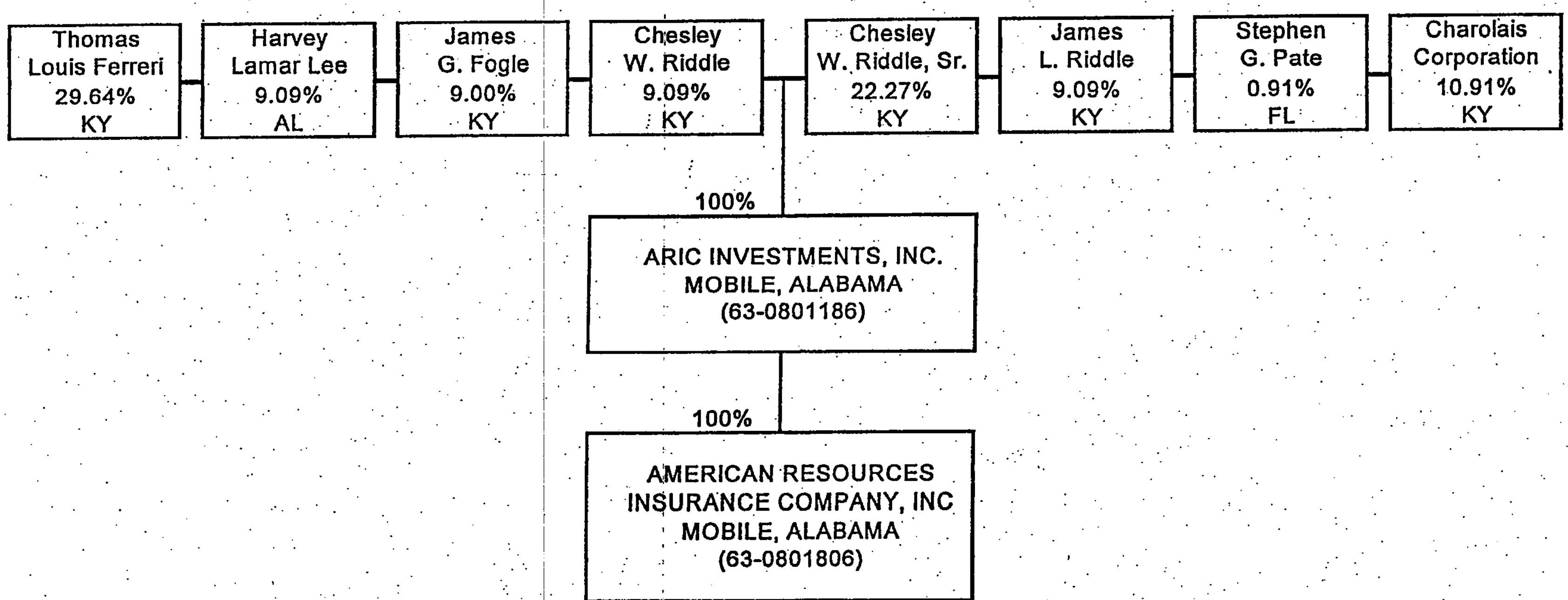
No dividends, to the sole stockholder, were paid during the current examination period. However, a recommendation is made in this report, to re-classify the amount reported as *Receivables from parent, subsidiaries and affiliates* to *Dividends to stockholders.* [See *Note 2 – Receivables form parent, subsidiaries and affiliates* caption under the NOTES TO FINANCIAL STATEMENTS section of this report.]

Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2003:

AMERICAN RESOURCES INSURANCE CO., INC.

ORGANIZATIONAL CHART
AS OF 12/31/03



Transactions and Agreements with Affiliates

Consolidated Tax Allocation Agreement:

The Company entered into a Consolidated Tax Allocation Agreement with ARIC Investments Inc. on February 27, 1981. The agreement will continue until terminated upon notice by either party. The Annual Statements filed during the examination period reported that the Company filed its federal income taxes on a consolidated basis with its parent, ARIC Investments Inc.

The Company provided no evidence that prior approval of the agreement was filed in accordance with ALA. CODE § 27-29-5(b) (1975), which requires that:

> "...transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto...and the commissioner has not disapproved it within that period."

EMPLOYEE AND AGENTS WELFARE

The Company provided the following benefits for its employees during the five-year examination period:

- Group Term Life Insurance
- Accidental Death and Dismemberment
- Long-Term Disability
- Family and Medical Leave of Absence Benefit
- Group Health Insurance
- 401(k) Plan
- Continuing Education
- Paid Vacation

Section 1033 of Title 18 of the US Code

The Company was asked how it determined if prospective and current employees were in conflict with Section 1033 of Title 18 of the US Code and ALA. ADMIN.

CODE 482-1-121 (2003), which prohibit certain persons from participating in the business of insurance. Company management provided an Employment Application that asks potential employees about any violations of law and the authorization to verify the information.

Other than the employment application, the Company did not monitor employees on an on-going basis to maintain compliance with federal and state laws. At the examination date, the Company provided no evidence that employees were not in conflict with Section 1033 of Title 18 of the US Code and ALA. ADMIN. CODE 482-1-121 (2003).

SPECIAL DEPOSITS

In order to comply with the statutory requirements for doing business in the various jurisdictions in which it was licensed, the Company had the following securities on deposit with state authorities at December 31, 2003.

State and Description	Par Value	Statement Value	Fair Value
Alabama			
F.H.L.B, 6.50%, Matures 11/29/05	$ 250,000	$ 250,000	$ 271,485
F.H.L.B, 4.375%, Matures 04/11/05	250,000	250,000	258,908
F.H.L.B, 6.00%, Matures 09/15/05	250,000	250,000	267,813
F.N.M.A, 5.35%, Matures 03/18/09	250,000	248,270	248,270
*Total – Alabama**	$ 1,000,000	$ 998,270	$ 1,046,476
Georgia			
F.N.M.A, 6.00%, Matures 01/18/12	$ 100,000	$ 99,509	$ 103,625
Total – Georgia	$ 100,000	$ 99,509	$ 103,625
South Carolina			
F.H.L.B, 6.438%, Matures 08/27/15	$ 250,000	$ 253,303	$ 253,303
Total – South Carolina	$ 250,000	$ 253,303	$ 253,303
Virginia			
F.H.L.B, 4.50%, Step Up Matures 04/15/12	$ 250,000	$ 249,834	$ 249,834
Total-South Carolina	$ 250,000	$ 249,834	$ 249,834
TOTAL	**$ 1,600,000**	**$ 1,600,916**	**$ 1,653,238**

*Held for the protection of all policyholders.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating growth and financial condition of the Company for the period under review:

Period Ending	Admitted Assets	Liabilities	Capital and Surplus	Common capital stocks	Direct premiums written
12/31/2003*	42,670,303	33,759,080	8,911,223	1,500,000	26,535,805
12/31/2002	36,212,975	26,122,988	10,089,987	1,500,000	24,249,627
12/31/2001	35,886,064	26,426,719	9,459,345	1,500,000	22,224,036
12/31/2000	31,287,393	21,719,375	9,568,018	1,500,000	19,520,545
12/31/1999	30,733,452	20,036,520	10,696,932	1,500,000	17,695,631
12/31/1998*	27,967,180	19,471,739	8,495,441	1,500,000	16,885,756

* Per examination. Amounts for the remaining years were obtained from Company copies of filed Annual Statements.

MARKET CONDUCT ACTIVITIES

Territory

At the examination date, the Company was licensed to transact business in the following eight states:

Alabama	Indiana	Mississippi	Tennessee
Georgia	Kentucky	South Carolina	Virginia

The Certificates of Authority for the respective jurisdictions were inspected for the period under review and found to be in order.

No license applications were pending at December 31, 2003, or at the date of this report.

Plan of Operation

The Company's business was produced exclusively through independent agents. At December 31, 2003 there were approximately 390 independent agents representing approximately 237 agencies soliciting business for the Company.

The Company's principal claims office was located at its home office in Mobile, Alabama. This office processed claims for all states, except that Claim Specialist, Inc. and Cambridge Integrated Services, Inc. adjudicates workers' compensation claims in the states of Georgia and Virginia respectively, in accordance with those states laws. Final payments for all claims are determined at the Company's home office in Mobile.

The Company also participates in workers' compensation pools for some states, but has opted to write direct assignment workers' compensation business in lieu of accepting a share of the assigned risk pools in other states.

Fronting Arrangement

Service Agreement between the Company and Georgia Casualty & Surety Company (GCSC) and Quota Share Reinsurance Agreement between the Company and PMA Capital Insurance Company, Philadelphia, Pennsylvania

In addition to the Company's direct business writings, the Company entered into a service agreement effective October 1, 2002 with GCSC. This agreement granted authority to GCSC to solicit and appoint agents; issue, renew and countersign policies; process claims; and collect and deposit premiums into GCSC's premium bank account(s). The agreement did limit the annual premium volume to $10,000,000. The contract specified that agreement was to be automatically renewed on an annual basis, unless cancelled due to other provisions of the contract. If business had been produced under this contract within the ranges specified in the agreement, the Company could have been responsible for complying with ALA. CODE § 27-6A-1 (1975).

In conjunction with this Service Agreement, the Company entered into a 100% quota share treaty with PMA Capital Insurance Company, Philadelphia, Pennsylvania (PMA). This contract specified that all business produced under the referenced Service Agreement would be ceded to PMA. As a ceding commission, the Company would receive a ceding fee of 4% of the gross written premium; however, the minimum annual ceding fee was $160,000.

The service agreement and the related reinsurance treaty were cancelled effective October 1, 2003. There was no business written by GCSC and no business ceded to PMA Capital Insurance Company. The Company did receive its minimum annual ceding fee of $160,000.

Compliance with Agents' Licensing Requirements

The examiners made an inspection of Company records to determine if the agencies representing the Company were properly licensed, and the agents within the agencies were duly appointed. The agents' listing, consisting of 115 agents, from the Alabama Department of Insurance Licensing Division was compared with the listing maintained by the Company. There were agents on the Department's listing who were not on the Company's listing and there were five agents, who produced new business for the Company during the examination period, who were not appointed by the Company.

The premium and commission records were maintained by the Company on an agency level and did not contain the name of the agents producing business; hence, the examiner could not establish the amount of premiums written by the aforementioned six agents from those records.

ALA. CODE § 27-27-29 (1975), which states:

> "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs..."

The examiner established that the five agents, not appointed by the Company, were employed by three agencies. The examiner obtained a listing of premiums generated by these agencies along with the policy applications for the five years under examination for all new business produced. If the examiner determined that the new business application was not submitted by an appointed agent, then the examiner searched the premium records relating to the agency to identify any other policies with the same insured name. In addition, the examiner provided the Company with the exceptions noted to determine if the Company had any additional records to provide to examiners to document that the business in question was actually submitted by appointed agents. The only additional information provided was that four of the five agents were appointed by the Company in 2004, subsequent to the period covered by this examination.

ALA. CODE § 27-7-4 (a) (1975), states:

> "Any insurer accepting business directly from a person not licensed for that line of authority and not appointed by the insurer shall be liable to a fine up to three times the premium received from the person."

The Company received $1,624,590 from agents not appointed by the Company during the period covered by the examination. The Company is contingently liable for a fine of up to three times the premium received or $4,873,770.

Policy Forms and Underwriting

The following commercial lines insurance coverages were offered by the Company:

- Fire
- Commercial multiple peril
- Inland marine
- Workers' compensation
- General liability
- Auto liability
- Auto physical damage

The Company did not file any new policy forms during the period covered by this examination.

The Company has an underwriting plan that defines acceptable and unacceptable risk. All new business submissions must be accompanied with a completed application and the Company reviews the applicants' loss history, before the policy is issued.

All renewal policies are reviewed prior to the renewal date. Loss runs are prepared and files are reviewed by the underwriters or the manager. Renewal quotes are given at least thirty days prior to policy expiration date or as required by the laws of the states of business. Policies with excessive losses are non-renewed in accordance with the applicable state laws where the risk is located.

The Company has two rating organization affiliations, the Insurance Services Office (ISO), and National Council for Compensation Insurance (NCCI) for its rating programs. The Company accepts all new rates that are compiled by ISO and NCCI and filed on behalf of the Company. Any other changes that the Company elects are filed with the various state department and rating organizations that the Company utilizes.

Advertising

The Company did not have a formal advertising program at December 31, 2003. The Company sends out quarterly newsletters and notices to its independent agents.

The Company has an Internet website, www.aric.cc. The Company name, address phone number and the lines of business written by the Company are listed on the website.

Complaint Handling

The complaint register maintained by the Company was inspected for the period covered by the examination. Twelve complaints were recorded of which one complaint was from an Alabama policyholder. There were no written complaints recorded by the Consumers Division of the Alabama Department of Insurance from January 1999 through December 31, 2003.

The documentation relevant to the twelve complaints was reviewed, and was considered to be sufficient in addressing and resolving issues raised in the complaints. The time frames in which the complaints were resolved fell in the 1-10 day period, which was determined to be adequate.

REINSURANCE

Reinsurance Assumed

The Company did not enter into any assumed reinsurance transactions during the period covered by the examination. At December 31, 2003, the Company reflected $587,000 of known case loss and LAE reserves on *Schedule F – Part 1* of its Annual Statement. The assumed reinsurance transactions occurred with a former affiliate, Kentucky National Insurance Company, and have been in run-off since the treaties were not renewed in 1986.

Reinsurance Ceded

The Company's ceded reinsurance program consisted of treaty and facultative reinsurance agreements, which were designed to limit and contain the impact of large single risk losses, and to protect the Company against catastrophic losses. The Company was reinsured by a number of reinsurers, including authorized and unauthorized reinsurers, and Lloyd's syndicates. The reinsurance was brokered through Benfield Blanch Inc., a reinsurance intermediary, with the exception of two agreements. During 2003, the Company's maximum retention for property and casualty business, which includes workers' compensation and employer's liability, was $250,000 of ultimate net loss as respects any one risk, each loss.

The Company's historical net retention is summarized in the following table:

Period	Liability and Workers' Comp	Property
1981-1985	$ 75,000	Facultative
1986-1991	100,000	$ 100,000
1992-1993	125,000	100,000
1994	125,000	125,000
1995-2001	150,000	150,000
2002	200,000	200,000
2003	250,000	250,000

The treaty and facultative reinsurance agreements were reviewed with regards to type, limits and pertinent safeguards. At December 31, 2003, the following agreements were in-force:

1. First Excess Multiple Line.
2. Second Excess Multiple Line.
3. First Contingent and Clash Casualty.
4. Second Contingent and Clash Casualty.
5. Excess Property Catastrophe.
6. Catastrophe Workers' Compensation Excess of Loss.
7. Property Facultative Excess of Loss Binding Agreement.
8. Umbrella Quota Share.
9. Employment Practices Liability Insurance Quota Share.
10. Quota Share Reinsurance Treaty Boilers and Machinery Insurance.

1. First Excess Multiple Line

The contract was effective January 1, 2003, and reinsured the Company from excess liability on policies classified as property and casualty business, including workers' compensation and employer's liability.

- *Coverage A – Property*: The reinsurer's liability is $250,000, in excess of the Company's retention of $250,000, of ultimate net loss as respects any one risk, each loss and will not exceed $750,000, as respects all risks involved in any one loss occurrence.

- *Coverage B – Casualty*: The reinsurer's liability is $250,000, in excess of the

Company's retention of $250,000, of ultimate net loss each occurrence and in the aggregate, and will not exceed $250,000, as respects each occurrence and in the aggregate.

- *Coverage C: Property and Casualty*: The reinsurer's liability is $250,000, in excess of the Company's retention of $250,000, of ultimate net loss as respects to one occurrence.

First Excess Multiple Line, working layer, reinsurance agreement reinsured the Company to a maximum amount of $500,000.

2. Second Excess Multiple Line

The contract was effective January 1, 2003, and reinsured the Company from excess liability on policies classified as property and casualty business, including workers' compensation and employer's liability.

- *Coverage A: Property:* The reinsurer's liability is $500,000, in excess of the Company's retention of $500,000, of ultimate net loss as respects any one risk, each loss and will not exceed $1,500,000, as respects all risks involved in any one loss occurrence. In addition to the reinsurer's limit of liability set forth above, the reinsurer is liable for loss adjustment expenses associated with property business and business interruption loss not to exceed $100,000 as respects any one policy.

- *Coverage B: Casualty:* The reinsurer's liability is $500,000, in excess of the Company's retention $500,000, of ultimate net loss as respects each occurrence and in the aggregate, and will not exceed $500,000, as respects each occurrence and in the aggregate.

The Second Excess Multiple Line reinsurance agreement reinsured the Company to a maximum amount of $1,000,000.

3. First Contingent and Clash

The contract was effective January 1, 2003, and reinsured the Company from excess liability on policies classified as property and casualty business, including workers' compensation and employer's liability. The reinsurer's limit is $2,000,000, in excess of $1,000,000, of the Company's retention of ultimate net loss. The reinsurer's liability will not exceed $2,000,000, as respects each occurrence and in the aggregate.

The First Contingent and Clash reinsurance agreement reinsured the Company to a maximum amount of $3,000,000.

4. ***Second Contingent and Clash Casualty***

The contract was effective January 1, 2003, and reinsured the Company from excess liability on policies classified as property and casualty business, including workers' compensation and employer's liability. The reinsurer's limit is $2,000,000, in excess of $3,000,000, of the Company's retention of ultimate net loss. The reinsurer's liability will not exceed $2,000,000, as respects each occurrence and in the aggregate.

The Second Contingent and Clash reinsurance agreement reinsured the Company to a maximum amount of $5,000,000.

The First and Second Excess Multiple Lines and First and Second Contingent and Clash Casualty Reinsurance Contracts were brokered through Benfield Blanch Inc., an intermediary. The following schedule reflects the participating reinsurers:

Reinsurers	**First Excess**	**Second Excess**	**First Cont.**	**Second Cont.**
United States				
Chubb Re. Inc.			15.0%	15.0%
GE Reinsurance Corporation	20.0%	20.0%	20.0%	20.0%
Platinum Underwriters Reinsurance, Inc.	15.0%	15.0%	15.0%	15.0%
PMA Re Management Company	40.0%	40.0%	10.0%	10.0%
United States : Total	**75.0%**	**75.0%**	**60.0%**	**60.0%**
Europe				
Hannover Ruckversicherungs-Aktiengesellschaft	25.0%	25.0%	40.0%	40.0%
Europe: Total	**25.0%**	**25.0%**	**40.0%**	**40.0%**
Grand Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

5. ***Excess Property Catastrophe***

The contract was effective January 1, 2003, will remain in-force until December 31, 2005, and was brokered through Benfield Blanch Inc. The contract reinsured the Company from excess liability on policies classified as property, including but not limited to fire, allied lines, inland marine, difference conditions (and any related coverages), automobile physical damage, commercial package (inland marine and/or property coverage parts), and business-owners. The reinsurer's liability is 100% of $4,875,000, in excess of the Company's retention of $125,000, of ultimate net loss arising out of each loss occurrence. The reinsurer will not be subject to this contract unless two or more risks insured or reinsured by the Company are involved in the same loss occurrence. The Company's retention and the reinsurer's liability for every additional layer are listed below:

Layers	Company's Retention	Reinsurer's per Occurrence Limit	Reinsurer's Annual limit	Reinstatement
First Excess	$ 125,000	$ 375,000	$ 750,000	YES
Second Excess	500,000	500,000	1,000,000	YES
Third Excess	1,000,000	1,000,000	2,000,000	YES
Fourth Excess	2,000,000	3,000,000	6,000,000	YES

The participating reinsurers were the following:

Reinsurers	First Excess	Second Excess	Third Excess	Fourth Excess
Bermuda				
Da Vinci Reinsurance Ltd.	25.0%	25.0%	25.0%	25.0%
Renaissance Reinsurance, Ltd.	75.0%	75.0%	75.0%	75.0%
Grand Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

6. *Catastrophe Workers' Compensation Excess of Loss.*

The contract was effective July 1, 2003, and was brokered through Benfield Blanch Inc. The contract reinsured the Company from excess liability on policies classified as workers' compensation business. The reinsurer's liability is $5,000,000, in excess of the Company's retention of $5,000,000, as respects any one occurrence. The agreement reinsured the Company from a covered loss of $10,000,000, and follows the Second Contingent and Clash Casualty reinsurance contract.

Addendum No. 1, to the original contract was effective October 1, 2003, and changed the participation of the reinsurers as follows:

Reinsurers	Participation July 1, 2003	Participation October 1, 2003
United States		
PMA Re Management Company	50.0%	0%
United States Total	**50.0%**	**0%**
Europe		
Danish Re Underwriting Agencies	25.0%	25.0%
Europe Total	**25.0%**	**25.0%**
Others		
Aspen Insurance UK LTD	12.5%	37.5%
Lloyd's Syndicate 0435	6.25%	18.75%
Lloyd's Syndicate 0570	6.25%	18.75%
Others Total	**25.0%**	**75.0%**
Grand Total	**100.0%**	**100.0%**

7. Property Facultative Excess of Loss Binding Agreement.

The agreement was effective September 1, 2003, and entered into between the Company and American Re-Insurance Company, Princeton, New Jersey, a Delaware corporation, with no intermediary. The agreement applies to property commercial lines policies issued by the Company and underwritten by the Company's underwriters, and only applies to a risk that is entered into and bound on the AUTO FAC® system within thirty days of the Company being bound on such risk.

The reinsurer's liability is $3,000,000, of Ultimate Net Loss on each risk, each occurrence, excess of the Company's net treaty retention of $1,000,000, each risk, each occurrence.

8. Umbrella Quota Share.

The agreement was effective September 1, 2003, and entered into between the Company and PMA Capital Insurance Company, Philadelphia, Pennsylvania, through PMA Management Company, Philadelphia, Pennsylvania, with Benfield Blanch Inc., as intermediary. The agreement applies to policies issued by the Company that are classified as Commercial Umbrella Liabilities business.

The first $1,000,000 of policy limit is subject to the quota share contract, with the Company retaining five percent of the net liability. The reinsurer's limit is ninety-five percent of $1,000,000, as respects one policy, any one occurrence. For policies subject to the contract with limits greater than $1,000,000, the reinsurer's liability will be 100% of the net liability. The reinsurer's maximum liability is 100% of $4,000,000, as respects to one policy, any one occurrence.

Notwithstanding the aforementioned provisions, the reinsurer's liability will not exceed the amounts listed below in the following events.

- Not exceed $5,000,000 in the annual aggregate for the term of the contract, as respects the sum of the losses resulting from fungi.
- Not exceed $1,000,000 in the annual aggregate for the term of the contract, as respects the sum of the losses resulting from terrorism.

9. Employment Practices Liability Insurance Quota Share.

The agreement was effective October 1, 2003, and was entered into between the Company and Lloyds Syndicate, with Benfield Greig Limited, which was merged with Benfield Blanch Inc., as intermediary. The agreement applies to policies classified as Employment Practices Liability Insurance and written as a coverage section of the Company's General Liability, Commercial Package or Business Owners Policies.

The reinsurer's liability is 100% of the Company's net liability, with a maximum limit of $250,000, in the aggregate, any one policy. The reinsurer will also be liable for 100% of the Loss in Excess of Policy Limits and Extra Contractual Obligations.

10. Quota Share Reinsurance Treaty Boilers and Machinery Insurance.

The agreement was effective January 1, 2001, and was entered into between the Company and Factory Mutual Insurance Company, Johnston, Rhode Island, with no intermediary. The agreement applies to Boilers and Machinery endorsements on Commercial Multi-Peril Insurance policies.

The maximum amount the Company can cede to the reinsurer is $5,000,000, on any one risk without prior written agreement. The reinsurer's liability is 100% of the Company's net retained liability, which includes Excess of Original Policy Limit and Extra Contractual Obligations.

ACCOUNTS AND RECORDS

Electronic Data Processing Accounting System

The Company's principal accounting records were maintained primarily on electronic data processing (EDP) equipment with certain records maintained manually.

- The accounting department's information system utilizes a vendor application software package for processing financial records, including processing accounts payable checks.
- The underwriting department's information system utilizes vendor application software for underwriting, including premiums processing.
- The claim department's information system utilizes in-house computer programs for claims processing, including printing claim checks. The claim records for Surety Bond business, which is in run-off, are not processed by this system.

Company management indicated that claims and underwriting, including premium data are transferred to the accounting system via transferable medium for general ledger posting and preparing financial statements.

During the period covered by this examination, the Company moved towards maintaining underwriting and claims files in electronic format. Imaged copies of underwriting (policy files) and claim files were reviewed during the examination.

Disaster Recovery Plan

Though interviews with Company management and written responses to the NAIC Information System Questionnaire (ISQ), it was noted that a business continuity plan was in place as of the examination date. The plan allows the Company to continue business activities when breakdowns of computer hardware or catastrophic events occur. The plan includes tape backup of all applications, including imaged files, and emergency use of hardware from vendors. The backups of data files on tape are maintained in a locked storage facility of a bank, and access to the locker is restricted.

Accounting Records

The Company was audited annually by the independent certified public accounting firm of Russell, Thompson, Butler & Houston, LPP. Mobile, Alabama. Mr. James Butler, CPA, CVA was the engagement partner during three of the five years covered by the examination. The 2003 audit report indicated that the Company's was audited on GAAP basis and then reconciled to STAT. The journal entries reconciling the GAAP accounting to STAT were provided and reviewed by the examiners.

The reserve calculations for the examination period were certified by the Company's actuarial consultant Mr. Terry Godbold, ACAS, MAAA, and Ms. Mary Jo Godbold, ACAS, MAAA of Godbold, Malpere. Ms. Mary Jo Godbold prepared much of the work and signed the reserve study cover letter. It is noted that the NAIC Annual Statement Instructions states:

> "The Qualified Actuary must be appointed by the Board of Directors, or its equivalent, or by a committee of the Board, by December 31 of the calendar year for which the opinion is rendered."

The Board of Directors' minutes of the meeting dated December 8, 2000, appointed Mr. Terry Godbold, ACAS, MAAA to sign the Actuarial Opinion. However, during the other years covered by the examination, the Company did not appoint the opining actuary.

Consideration of Fraud

The examiners utilized the procedures recommended in the NAIC Financial Condition Examiners Handbook in Exhibit M – Consideration of Fraud. The CPA documentation of the fraud risk factors was reviewed and procedures were included during the examination to test the risk factors identified by the CPA. Company management was interviewed; management showed an understanding of the fraud risk factors in the Company and action taken over the years to mitigate the risk.

Management indicated that there were no fraudulent activities identified in the Company and they had no knowledge of fraud perpetrated against the Company.

Compliance with ALA. ADMIN. CODE 482-1-122

The Company writes commercial and workers compensation business. The aforementioned code was not applicable.

FINANCIAL STATEMENTS INDEX

The Financial Statements included in this report were prepared based on the Company's records, and the valuations and determinations made during the examination for the year December 31, 2003. Amounts shown in the comparative statements for the years 1999, 2000, 2001 and 2002 were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

FAILURE OF FINANCIAL STATEMENTS TO BALANCE TO INDICATED TOTALS IS DUE TO ROUNDING.

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

AMERICAN RESOURCES INSURANCE COMPANY, INC.

STATEMENT OF ASSETS

For the Year Ended December 31, 2003

	Assets	Non-admitted Assets	Net Admitted Assets	Prior Year Net Admitted Assets
Bonds	$26,414,355	$ -0-	$26,414,355	$21,440,496
Stocks:				
Preferred stocks	25,938		25,938	24,438
Common stocks	2,025,647		2,025,647	1,478,313
Real Estate:				
Properties occupied by the company	1,536,780		1,536,780	1,572,804
Cash, cash equivalents and short-term investments **(Note 1)**	4,065,090	-0-	4,065,090	4,534,623
Subtotals, cash and invested assets	$34,067,810	$ -0-	$34,067,810	$29,050,674
Investment income due and accrued	245,348		245,348	282,435
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	2,287,685	132,090	2,155,595	2,257,019
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,283,375		4,283,375	3,507,363
Reinsurance:				
Amounts recoverable from reinsurers	411,313		411,313	82,640
Current federal and foreign income tax recoverable and interest thereon	213,905		213,905	
Net deferred tax asset	1,267,206	164,391	1,102,815	827,698
Electronic data processing equipment and software	63,836		63,836	82,508
Furniture and equipment, including health care delivery rates	239,740	239,740		
Receivables from parent, subsidiaries and affiliates **(Note 2)**	80,696	80,696		
Aggregate write-ins for other than invested assets	255,476	129,171	126,305	122,638
TOTALS	$43,416,392	$746,089	$42,670,303	$36,212,975

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTERGRAL PART THEREOF

AMERICAN RESOURCES INSURANCE COMPANY, INC.
STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS
For the Year Ended December 31, 2003

	Current Statement Date	December 31, Prior Year
LIABILITIES		
Losses **(Note 3)**	$18,083,172	$14,350,274
Loss adjustment expenses **(Note 3)**	1,496,497	1,159,175
Commissions payable, contingent commissions and other similar charges	728,230	288,538
Other expenses	124,615	170,620
Taxes, licenses and fees	473,372	406,738
Current federal and foreign income taxes		80,219
Unearned premiums (after deducting unearned premiums for ceded reinsurance of $1,038,169)	11,300,672	7,991,458
Advance premium		
Ceded reinsurance premiums payable	1,030,457	1,251,309
Funds held by company under reinsurance treaties	4,012	4,012
Amounts withheld or retained by company for account of others	184,831	118,575
Provision for reinsurance	439	0
Payable to parent, subsidiaries and affiliates		
Aggregate write-ins for liabilities	332,783	302,070
Total liabilities	$33,759,080	$26,122,988
SURPLUS AND OTHER FUNDS		
Common capital stock	$ 1,500,000	$ 1,500,000
Gross paid in and contributed surplus	1,500,000	1,500,000
Unassigned funds (surplus) **(Note 4)**	5,911,223	7,089,987
Surplus as regards policyholders	$ 8,911,223	$10,089,987
TOTALS	$42,670,303	$36,212,975

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTERGRAL PART THEREOF.

AMERICAN RESOURCES INSURANCE COMPANY, INC.
STATEMENT OF INCOME
Prior Years Ended December 31, 1999, 2000, 2001, 2002 and 2003

	12/31/2003	12/31/2002	12/31/2001	12/31/2000	12/31/1999
Underwriting income					
Premiums earned	$ 19,125,325	$ 17,077,375	$ 16,705,529	$ 15,349,968	$ 14,347,799
Deductions:					
Losses incurred	$ 11,201,488	$ 7,715,577	$ 9,191,835	$ 8,704,401	$ 7,836,452
Loss expenses incurred	2,439,685	1,598,422	2,441,779	1,830,259	872,800
Other underwriting expenses incurred	8,289,008	7,544,908	6,905,776	6,546,153	6,170,724
Total underwriting deductions	$ 21,930,181	$ 16,858,907	$ 18,539,390	$ 17,080,813	$ 14,879,976
Net underwriting gain or (loss)	$ (2,804,856)	$ 218,468	$ (1,833,860)	$ (1,730,845)	$ (532,177)
Investment Income					
Net investment income earned	$ 966,935	$ 1,162,818	$ 1,430,595	$ 1,527,301	$ 1,358,812
Net realized capital gains or (losses)	6,469	(14)	616,570	2,006	703,713
Net investment gain or (loss)	$ 973,404	$ 1,162,804	$ 2,047,165	$ 1,529,307	$ 2,062,525
Other income					
Net gain or (loss) from agents' or premium balances charge off	$ (56,683)	$ (140,168)	$ (35,912)	$ (92,854)	$ (143,684)
Finance and service charges not included in premiums	59,032	55,093	54,894	48,294	40,065
Aggregate write-ins for miscellaneous income:	153,889	75,269	25,146	14,678	(18,407)
Total other income	$ 156,238	$ (9,806)	$ 44,128	$ (29,882)	$ (122,026)
Net income after dividends to policyholders and before federal and foreign income taxes	(1,675,214)	1,371,466	257,432	(231,419)	1,408,322
Federal and foreign income taxes incurred	438,486	168,714	161,175	(23,044)	298,885
NET INCOME	$ (2,113,700)	$ 1,202,752	$ 96,257	$ (208,375)	$ 1,109,437

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTERGRAL PART THEREOF.

AMERICAN RESOURCES INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT
Prior Years Ended December 31, 1999, 2000, 2001, 2002 and 2003

	12/31/2003	12/31/2002	12/31/2001	12/31/2000	12/31/1999
CAPITAL AND SURPLUS ACCOUNT					
Surplus as regards policyholders, December 31, prior year	$10,089,987	$ 9,459,345	$ 9,568,018	$10,696,932	$ 8,495,441
GAINS AND (LOSSES) IN SURPLUS					
Net income	$(2,113,700)	$ 1,202,752	$ 96,257	$ (208,375)	$ 1,109,437
Change in net unrealized capital gains or (losses)	643,830	(417,698)	(782,542)	(911,895)	988,812
Change in net deferred income tax	42,185	(151,236)	602,130		
Change in nonadmitted assets	249,360	(3,176)	(709,964)	(8,958)	103,556
Change in provision for reinsurance	(439)			314	(314)
Cumulative effect of changes in accounting principles			685,447		
Surplus adjustments:					
Aggregate write-ins for gains and losses in surplus:					
Non-admitted investment in sub					
Amortization of capitalization assessment credits expenses in prior Years	0	0	0	0	0
Change in surplus as regards policyholders for the year	$(1,178,764)	$ 630,642	$ (108,672)	$(1,128,914)	$ 2,201,491
Surplus as regards policyholders, December 31 current year	$ 8,911,223	$10,089,987	$ 9,459,345	$ 9,568,018	$10,696,932

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTERGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Cash, cash equivalents and short-term investments $4,065,090

The captioned amount is the same as reported in the Company's 2003 Annual Statement.

The Company has entered into a repurchase agreement with SouthTrust Bank, Birmingham, Alabama, which was in effect at December 31, 2003. The fair value of the collateral pledged by SouthTrust Bank was $1,163,007, which was $23,253 less than the 102% collateral requirements. *SSAP No. 45, paragraph 8*, of the NAIC Accounting Practices and Procedure Manual states:

> "The reporting entity shall receive as collateral transferred securities having a fair value at least equal to 102 percent of the purchase price paid by the reporting entity for the securities."

The Company reported the purchase price of $1,163,000 under *Schedule E - Part 1 - Cash*, of the 2003 Annual Statement.

SSAP No 45, paragraph 4, of the NAIC Accounting Practices and Procedures Manual states:

> "Repurchase agreements shall be accounted for as collateralized lendings...The amount paid for the securities shall be reported as a short-term investment..."

The Company should have reported this investment as short-term investment in accordance with the aforementioned SSAP. Short-term investments are reported on *Schedule DA - Part 1 - Short-term investments* in accordance with the NAIC Annual Statement Instructions.

The Company reported money market funds in the amount of $1,476,469 held under a custodial agreement with SouthTrust Bank under *Schedule E - Part 1- Cash.* According to the guidance provided in Part Four of the NAIC SVO Manual, this money market funds met certain conditions set forth in Part Eleven of the NAIC SVO Manual, and should have been reported under *Schedule DA - Part 1* and not under *Schedule E - Part 1*.

Note 2 – Receivables from parent, subsidiaries and affiliates **$ -0-**

The captioned amount is the same as reported by the Company in its 2003 Annual Statement.

The 2003 Annual Statement reported an $80,696 non-admitted receivable from ARIC Investments Inc., the Company's parent and sole stockholder. ARIC Investments Inc. did not have liquid assets or revenue available from external sources and hence the collectibility of the amount was in doubt.

The examination determined that at inception, ARIC Investments Inc. borrowed money to purchase the Company. The interest was then paid through funds generated by the Company and the transaction was accounted for as *Receivables from parent, subsidiaries and affiliates.*

Additionally, the Company pays the yearly business privilege tax in the amount of $110, of ARIC Investments Inc.; and the same accounting treatment is given to the transaction. Over the years, the Company had reported the amount as *Receivables from parent, subsidiaries and affiliates* and charged the same to surplus, thereby not admitting the receivable for the purpose of statutory reporting.

The examination determined that ARIC Investments Inc. does not have the ability to pay because it does not have the liquid assets or sources of revenue other than the Company. Therefore any amounts paid to or on behalf of ARIC Investments Inc. should be reported as *Dividends to stockholders* in the Annual Statement.

ALA. CODE § 27-29-5 (g)(2) (1975) states:

> "A domestic insurer subject to registration under Section 27-29-4 shall report to the commissioner all dividends to shareholders within five business days following the declaration of the dividends and not less than 10 days prior to the payment of the dividends."

ALA. CODE § 27-29-4 (b) (1975) states:

> "Every insurer subject to registration shall file a registration statement on a form provided by the commissioner which shall contain current information about:

g. Dividends and other distributions to shareholders…"

Alabama Department of Insurance *Regulation No. 55* also requires the Company to report transactions between affiliates, which have occurred during the year. The transactions include dividends and other distribution to shareholders.

Note 3 – Losses	**$18,083,172**
Loss adjustment expenses	**1,496,497**
	$19,579,669

The $19,579,669 liability is $2,078,917 more than the $17,500,752 reported by the Company in its 2003 Annual Statement for *Losses* and *Loss adjustment expenses* (LAE).

	PER 2003 A/S	ADJUSTMENT	PER EXAMINATION
LOSSES	$ 16,163,149	$ 1,920,023	$ 18,083,172
LAE	1,337,603	158,894	1,496,497
TOTAL	$ 17,500,752	$ 2,078,917	$ 19,579,669

The examination estimate of loss and LAE reserves is approximately $2.1 million, or 10.6%, greater than the Company's 2003 Annual Statement reserves. The difference is attributable to the Company and their consulting actuary utilizing actuarial methods in their analysis of workers compensation reserves that do not appropriately reflect the unique nature of occupational disease claims. The Company and their opining actuary evaluated occupational disease claims and other workers compensation claims on a combined basis. Occupational disease claims are expected to display a significantly different development pattern than other workers' compensation claims.

In 2004, the Company isolated the occupational disease data. In June 30, 2004 Quarterly Statement, the Company reflected approximately $1.9 million of adverse development on year-end 2003 reserves.

Note 4 – Unassigned funds (surplus)	**$ 5,911,223**

The *Unassigned funds (surplus)*, as determined by this examination, was $2,078,917 less than the $7,990,140 reported by the Company in its 2003 Annual Statement. The following presents a reconciliation of unassigned funds per the Company's filed 2003 Annual Statement to that developed by this examination:

Unassigned funds (surplus) per Company		**$ 7,990,140**
<u>Examination increase/(decrease) to assets:</u>		
NET CHANGES IN ASSETS	$ -0-	
<u>Examination (increase)/decrease to liabilities:</u>		
• Losses and loss adjustment expenses	$(2,078,917)	
TOTAL (INCREASE) TO LIABILITIES	$(2,078,917)	
Net Increase/(Decrease)		$(2,078,917)
Unassigned funds (surplus) per examination		**$ 5,911,223**

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included an inspection of representations made by management, and a general review of the Company's records and files conducted during the examination, including a review of claims. The Company did not have any non-claim related litigation.

See "Compliance with Agents' Licensing Requirements" caption on page 12 for related disclosures.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the prior recommendations with the exception of the items listed below:

Management and Control - Officers

The preceding report of examination recommended that the Company elect directors and appoint officers in compliance with its bylaws. This examination noted that the Company did not fully comply with the recommendation.

Committees

It was recommended that the Company retain a complete set of minutes of all meetings of its board of directors, shareholders and various committee that are signed by its authorized representatives. The examination noted that the Company did not fully comply with the recommendation.

COMMENTS AND RECOMMENDATIONS

Committees – Page 4

It is recommended that the Company's Board of Directors only appoint Board members to serve on committees of the Board of Directors in accordance with ALA. CODE § 10-2B-8.25 (1975).

It is recommended that the Company keep a permanent record of all actions taken by a committee of the Board of Directors in accordance with ALA. CODE § 10-2B-16.01 (1975).

Officers – Page 5

It is recommended that the Company elect officers annually at the Board meeting in compliance with its By-Laws.

Conflict of interest – Page 5

It is recommended that the Company not extend loans, pay fees, brokerage, or commissions to any officer or director as required by ALA. CODE § 27-27-26 (1975).

It is recommended that the Company contact the Commissioner of the State of Alabama and obtain approval for a solution to rectify the noted conflicts.

Transactions and agreements with affiliates – Page 9

It is recommended that the Company submit for approval the Consolidated Tax Allocation Agreement to the Alabama Department of Insurance in accordance with ALA. CODE § 27-29-5(b) (1975).

Section 1033 of Title 18 of the US Code – Page 9

It is recommended that the Company maintain documentation that evidences that its employees are not in conflict with Section 1033 of Title 18 of the US Code and ALA. ADMIN. CODE 482-1-121 (2003), which prohibit certain persons from participating in the business of insurance.

Plan of operation – Page 11

It is recommended that the Company not allow other entities to underwrite, issue, and service (premium collection and claims processing) business in the Company's name, if the Company is not actively involved in the management/production of said business. If the Company chooses to enter into a service agreement, it is necessary that the Company comply with all sections of ALA. CODE § 27-6A-1 (1975), the "Alabama Managing General Agents Act."

Compliance with Agents' Licensing Requirements – Page 12

It is recommended that the Company maintain complete records of its premium and commission transactions as required by ALA. CODE § 27-27-29 (1975), including the name of the agent producing business.

It is recommended that the Company accept business only from those persons appointed by the Company in accordance with ALA. CODE § 27-7-4 (a) (1975).

Accounts and records - Page 22

It is recommended that the Company appoint its opining actuary at the Board meeting by the end of each calendar year in accordance with the NAIC Annual Statement Instructions.

Cash, cash equivalents and short-term investments – Page 30

It is recommended that the Company ensure that the collateral pledged under the repurchase agreement meets the requirements of *SSAP No. 45* of the NAIC Accounting Practices and Procedure Manual by equaling at least 102 percent of the purchase price of the repurchase transaction.

It is recommended that the repurchase transactions be reported under short-term investments in accordance with *SSAP No. 45* of the NAIC Accounting Practices and Procedure Manual.

It is recommended that the Company classify its money market funds in accordance with the NAIC SVO Manual.

Receivables from parent, subsidiaries and affiliates – Page 30

It is recommended that when payment is made on behalf of ARIC Investments Inc. the same should be treated as *Dividends to Stockholders* and notification be made in accordance with ALA. CODE § 27-29-5 (g)(2)(1975). **It is recommended** that the Company report any transactions between affiliates on the appropriate form as required by ALA. CODE § 27-29-4 (b)(1975), and Alabama Department of Insurance *Regulation No. 55*.

Losses and Loss adjustment expenses – Page 31

It is recommended that the Company separate their occupational disease analysis from the remainder of workers' compensation for the purpose of future analyses and apply appropriate actuarial methods to estimate occupational disease reserves.

SUBSEQUENT EVENTS

Surplus notes

On May 24, 2004, the Company issued a surplus note in the amount of $3,000,000, to JPMorgan Chase Bank, at an interest rate, which equal LIBOR plus 4.10 centum per annum. The interest payment due dates according to the Amended and Restated Alabama Surplus Note executed on August 18, 2004, were February 28, May 30, August 30 and November 30 of each year.

Cash and cash equivalents and short-term investments

The value of the collateral pledged by SouthTrust Bank for the repurchase transaction at June 30, 2004, Quarterly Statement was 102 percent of the purchase price paid by the Company. Therefore, the Company had complied with the recommendation made in this report regarding repurchase agreement.

Losses and Loss adjustment expenses

In 2004, the Company separated the occupational disease claims from the remainder of workers compensation claims, significantly improving the accuracy of future reserve analyses.

CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by all persons representing the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and evaluation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Thomas Dan Norton and Angeline Wages, Examiners; and Glenn Taylor, ACAS, MAAA and Randall Ross; Consulting Actuarial Examiners; all representing the Alabama Department of Insurance, participated in this examination of American Resources Insurance Company, Inc.

Respectfully submitted,

Francis Blase Abreo

Blase Francis Abreo, CFE
Examiner-in-Charge
State of Alabama
Department of Insurance